

Sole Proprietorships, LLCs, and S-Corporations and Seattle's Proposed Income Tax

Sole Proprietorships and Line 12

Line 12 on a Form 1040 includes business income or loss from a sole proprietorship, either a single-member limited liability company or an unincorporated business owned by an individual and the spouse of that individual.

S-Corporations and LLCs and Line 17

Line 17 on a Form 1040 includes income from S corporations and LLCs. This can be calculated as a loss, subtracting from total income.

S corporations enjoy the legal status of a corporation, while passing all corporate income, losses, deductions, and credit through to its shareholders for federal tax purposes. The corporation itself is not liable for taxation.

Actual distributions of funds, as opposed to distributive shares, typically have no effect on shareholder tax liability. The term "pass through" refers not to assets distributed by the corporation to the shareholder, but instead to the portion of the corporation's income, losses, deductions or credits that are shown by the shareholder on his or her own income tax return. In many cases the corporation makes annual payments to the shareholders to cover the taxes that the shareholders must pay on corporate income.

Impact of Lines 12 and 17 on line 22 on a Form 1040?

Losses in lines 12 and 17 are included and can diminish total income on Line 22. Unlike the state and city B&O tax, which is a tax on gross receipts, regardless of profit or loss, Lines 12 and 17 enable the subtraction of business and corporate losses from total income.

	d	Total number of exemptions claimed		File number on lines above ▶			
Income	7	Wages, salaries, tips, etc. Attach Form(s) W-2	7				
	8a	Taxable interest. Attach Schedule B if required	8a				
	b	Tax-exempt interest. Do not include on line 8a	8b				
	9a	Ordinary dividends. Attach Schedule B if required	9a				
	b	Qualified dividends	9b				
	10	Taxable refunds, credits, or offsets of state and local income taxes	10				
	11	Alimony received	11				
	12	Business income or (loss). Attach Schedule C or C-EZ	12		LINE 12 - CAN INCLUDE LOSSES FROM SOLE PROPRIETORSHIPS, INCLUDING BUSINESS EXPENSES. NOT CALCULATED FROM GROSS RECEIPTS.		
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/>	13				
	14	Other gains or (losses). Attach Form 4797	14				
	15a	IRA distributions	15a		b Taxable amount	15b	
	16a	Pensions and annuities	16a		b Taxable amount	16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17		LINE 17 - CAN INCLUDE LOSSES FROM LLCs AND S-CORPS, INCLUDING BUSINESS EXPENSES. NOT CALCULATED FROM GROSS RECEIPTS.			
18	Farm income or (loss). Attach Schedule F	18					
19	Unemployment compensation	19					
20a	Social security benefits	20a		b Taxable amount	20b		
21	Other income. List type and amount	21					
	22	Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶	22		LINE 22 - CAN SUBTRACT LOSSES AND EXPENSES FROM LINES 12 AND 17		
Adjusted Gross	23	Educator expenses	23				
	24	Certain business expenses of reservists, performing artists, and	24				